

DD/S 61-3104

12 September 1961

MEMORANDUM FOR: Deputy Director (Support)

25X1A2D1

SUBJECT : [REDACTED] - Report of Audit for the
Period from Inception 1 November 1957
to 31 May 1961

1. The major deficiencies reflected in the attached report relate to the inadequacy of substantive documentation in support of expenditures and obligations. Similar deficiencies have been encountered in other action projects where sensitivity required that the activity be administered, controlled, and documented outside normal channels.

2. I believe that deficiencies of this type in these special projects would be largely avoided if we assure that responsible operating officials are provided with and utilize the technical assistance available from responsible Support Offices and if policy and criteria for obligating funds for special activities are clarified or re-defined to better recognize the realities of these situations.

3. In the case of control, maintenance and recording of documentation to support discharge of accountability for funds, we should look to the Comptroller for assistance and guidance rather than require operational personnel to assume this technical responsibility. The Comptroller's Office is equipped to provide assistance and if appropriate, assign experienced personnel to assist in the discharge of these responsibilities within whatever security and sensitivity considerations are determined necessary. Although assignment of technical personnel is highly desirable in many cases, such assignees should not be expected to provide the full breadth of knowledge and experience necessary to meet all technical problems which may be encountered. Such breadth of knowledge and experience is generally available only in the staffs of the responsible Support Office. Fuller

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utilization of these offices should avoid significant lapses in documentation as well as free operational officials from many administrative-fiscal details which impinge on the time and energy available for more substantive operational matters.

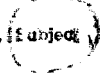
4. Paragraphs 5 through 8 of the attached report comment on the problem encountered in obligating funds. There are two aspects to this problem. First, the matter of basic documentation and data necessary to support obligations and second, the restriction on use of funds by fiscal year under the Agency's commitment to the Bureau of the Budget, General Accounting Office, Treasury Department, and House Appropriations Committee. I understand the Comptroller is drafting a paper designed to clarify obligating criteria and otherwise overcome these problems.


Chief, Audit Staff

Attachment

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Chief, FE Division

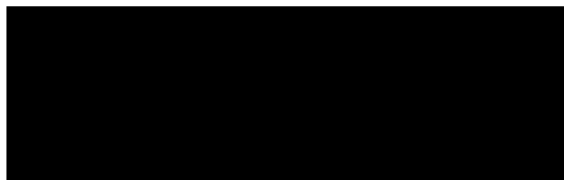
12 September 1961

Chief, Audit Staff

Report of Audit of [REDACTED] for the Period
1 November 1957 to 31 May 1961

25X1A2D1

Attached is subject report. Please advise the Audit Staff of the action taken on the recommendations reflected in paragraph 4 of the report.



25X1A9A

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AUDIT STAFF REPORT OF AUDIT

This report presents the findings developed from an audit of activities and accounts undertaken pursuant to Audit Staff responsibilities and authorities set forth in organization regulations. The audit included review and appraisal of internal controls and procedures and such other audit processes, test checks and verification of accounts, assets and transactions as were considered appropriate and consistent with generally accepted audit standards in the circumstances.

The objectives of the audit were to determine for management whether

- (1) Adequate controls and procedures have been established and are being applied effectively to safeguard organization resources and assure that resources are used only for approved and legal purposes, and
- (2) Activities are being conducted economically, efficiently and in conformance with policy determinations and directives.

The Audit Staff will be glad to furnish such additional data as may be available to it on any matter discussed in this report and to assist in any actions on these matters.

25X1A2D1

For the period:

From 1 November 1957

To 31 May 1961

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Chief, Audit Staff

Date 8 September 1961

This report consists of 7 pages.

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SUMMARY OF FINDINGS

3. Our audit revealed that documentation or other data of the type normally required to support obligations was not available to substantiate the validity of the total recorded obligations. Further, many transactions occurring subsequent to Fiscal Year 1958 and processed as expenditures in liquidation of Fiscal Year 1958 obligations were of the type which would normally be considered applicable to a fiscal year subsequent to Fiscal Year 1958. Adequate detail was not available to support a substantial amount of expenditures, and such documentation as was available was not maintained within a single substantive file. Although documentation made available to us indicated appropriate project approvals were obtained, we were unable to determine whether total project costs were within the limits of such approvals because property issued by field stations was not shown on Headquarters records.

SUMMARY OF RECOMMENDATIONS

4. We recommend that PE Division take action as deemed appropriate to assure documentation and recording of future expenditures and obligations according to such determinations as may arise out of the matters presented in this report. Additional specific recommendations are presented for consideration as follows:

- a. In conjunction with the Comptroller, review unliquidated obligations and adjust accounts to reflect only those obligations determined to be proper under established criteria. (Paragraphs 9 through 11)
- b. With concurrence of the Comptroller, determine whether review of all recorded expenditures should be undertaken for the purpose of adjusting as necessary to reflect charges to proper fiscal year. (Paragraph 13)
- c. Undertake action necessary to create a single substantive file to support and reflect the detail of expenditures. (Paragraph 14)

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DETAILED COMMENTS

Inadequate Support of Obligations

5. Except for a few payments and operational advances made in Fiscal Year 1958, the full allotment [REDACTED] was obligated at 30 June 1958 by Memorandum Obligation Record (MOR) based on Division estimate, the basis for which could not be furnished at date of audit. For the most part these obligations were not supported by contracts, purchase orders, or other proper obligating documents evidencing firm commitments as required by Section 1311 of the Supplemental Appropriation Act, 1953, Public Law 663, approved August 25, 1954 (31 U.S.C. 200) and Agency regulations.

6. Identification to Fiscal Year 1958 of all project obligations was due, at least in part, to the opinion of operating officials that all commitments or activities arising out of or attributable to the project were appropriate for charge to funds released from the reserve. Such procedure, in effect, resulted in the treatment of releases from the reserve as no-year funds not accountable by fiscal year. Such treatment was not consistent with the Agency commitment to the Bureau of the Budget, General Accounting Office, Treasury Department, and House Appropriations Committee as expressed in the Comptroller's Memorandum of 28 June 1961 to the Deputy Director (Support), subject: Proposed Plan for Use and/or Release of Remaining [REDACTED] Funds.

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7. It is recognized that it may be difficult if not impracticable, particularly in instances of major unprogrammed activities requiring releases from the reserve, to comply fully with generally applicable requirements for obligating funds. If such is the case, it would appear in order in such instances to request the Director to approve special procedures and criteria for obligating funds appropriate to the circumstances. Any such request should, of course, be coordinated with the General Counsel and Comptroller to assure that basic legal and budgetary considerations are satisfied. Also, we believe that, as a minimum, any special procedure should contemplate that, to the feasible extent, obligations will be supported by usual commitment documents and that any estimates of commitments established as a result of programmed activities will cite substantive data in support of the estimates. We suggest that this matter be explored with the Comptroller and General Counsel with a view to establishing

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special obligating criteria for future operations when justified by the circumstances and nature of the activity.

8. If the principle of accounting by fiscal year is to be maintained in the case of activities funded from the reserve, it would appear that approvals for release should contemplate either (a) that funds will be released progressively, (b) that funds previously released and not required for obligations of the current year will be updated, or (c) other funding arrangements will be implemented to provide funds for obligations incurred in years subsequent to the year of approval. Necessary guidance in meeting this problem in the future should be obtained from the Comptroller and General Counsel.

Unliquidated Obligations Overstated

25X1A1A 9. Obligations totalling [redacted] were transferred to the "M" account in June 1961. These obligations are not supported by usual obligating documents but are based on a memorandum signed by the Chief of Division, dated 30 June 1960. The Division memorandum indicates that the obligations were for continuing operational expenses of intelligence and communication networks, resupply and contingencies.

25X1A2D1 10. By memorandum to the DCI via DD/P from C/FE, dated 21 June 1961, subject: Proposed Plan for Use and/or Release of Remaining [redacted] Funds, the FE Division indicated that the then remaining obligations against the "M" account (approximately [redacted]) requested DCI approval of use of "M" account funds to liquidate this balance. Action on the FE proposal has been held up pending submittal of recommendations to be prepared jointly by the Division and the Comptroller as recommended by the DD/S in his memorandum to the DCI, dated 28 June 1961.

25X1A1A 11. In light of the pending action to determine to what extent, if any, obligations presently exist which may properly be charged to the "M" account, we have not endeavored to develop supporting information necessary to a firm conclusion regarding the propriety of presently recorded unliquidated obligations. From the nature of the items, however, it appears that a substantial portion, if not all, of these obligations should apply to a fiscal year subsequent to 1958.

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Normal Operating Expenses Charged to Reserve Funds

12. Memorandum for the Comptroller from Chief, FH Division, dated 6 June 1958 reports that "It has been clearly stated by Mr. Macey and accepted by the Agency that the normal operational expenses, such as travel, per diem, operational gifts and entertainment, etc., were not to be charged to the monies released by the Bureau of the Budget but were to be charged to normal regularly budgeted Agency funds, in this case the support funds for the country concerned." Although normal operating costs occurring during Fiscal Year 1958 and 1959 were segregated, our test checks revealed that travel of a staff employee, certain station expenses, and other items which appear to be normal operating expenses were charged to the reserve funds during Fiscal Years 1960 and 1961.

Adjustment of Expenditures Incorrectly Charged to Fiscal Year 1958

13. In the absence of definitive obligation documents, it was not possible in many cases to determine that payments made from project funds in Fiscal Years 1959, 1960, and 1961 were, in fact, the result of Fiscal Year 1958 commitments. Test examination of representative transactions, however, indicates that as much as twenty percent (20%) of project expenditures related to obligations of a type which normally would be charged to a fiscal year subsequent to 1958. Inasmuch as the current fiscal year (1962) does not appear to be involved in any of the charges, adjustment at this date would appear to serve only a historical statistical purpose. We, therefore, believe that determination as to whether adjustment action is warranted is a matter for resolution between the Comptroller and FH Division. (Selected examples of the questioned charges are reflected on Schedule 1.)

Lack of Support for Expenditures

14. A single, substantive file of documentation in support of detail of expenditures has not been maintained as prescribed in project approvals. Documents in support of field expenditures could not, for the most part, be located. Documents authorizing expenditures were often not identified to the actual expenditure by cross reference. Investigation of unsupported Headquarters payments in the amount of \$47,810 revealed that officials had to rely on the memory of a staff employee for explanation of the payments.

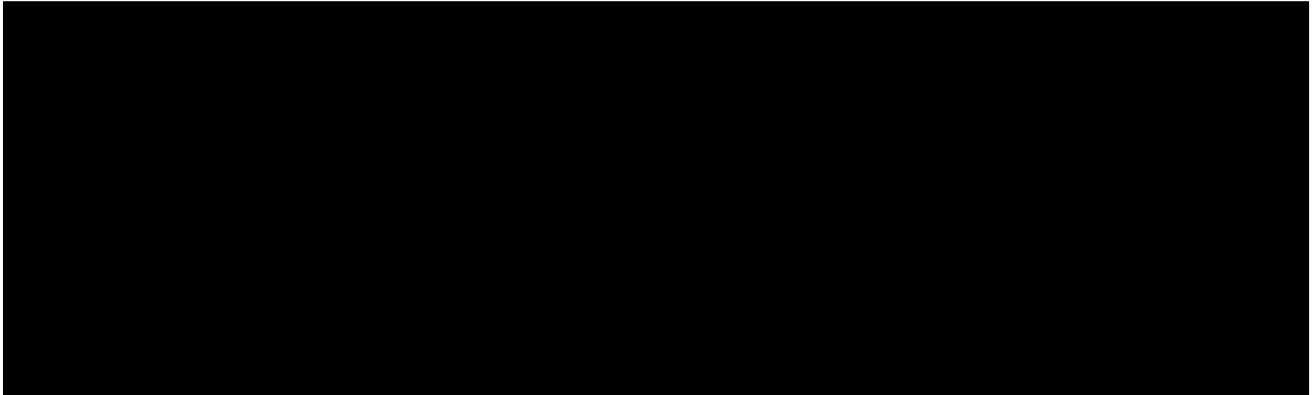
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Project Costs Incomplete

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GENERAL

16. We thank Division officials for their valuable assistance and cooperation during the course of our audit.

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25 SEP 1961

MEMORANDUM FOR: Chief, Audit Staff

SUBJECT: Report of Audit of [REDACTED] for the Period 1 November 1957 to 31 May 1961 25X1A2D1

1. FE concurs in the recommendations contained in Paragraph 4 of Subject Audit Report for [REDACTED] and will inform your Office when actions pursuant to these recommendations have been completed. 25X1A2D1

2. [REDACTED] who was the Executive Officer of FE during the period when [REDACTED] was most active, will arrive here at Headquarters within the next week or two. Therefore, we propose to arrange conferences with the Comptroller per Paragraph 4 a and b of your Report to coincide with [REDACTED] availability so that he can participate in these conferences.

3. We might observe that the experience gained in administering the financial affairs of [REDACTED] points out two courses of action we expect to pursue with any such problem that may confront the Division in the future. First, we would introduce a Senior Certifying Officer into the staff managing such a Project and see that he and the other members of the Project take advantage of the technical and other financial assistance available to them from senior members of the Comptroller's staff and other appropriate DD/S elements. Second, we will insure that audits are conducted at suitable intervals to avoid the problems that inevitably arise when such audits are delayed as long as occurred with [REDACTED]

Signed [REDACTED]

[REDACTED]
Chief, Far East Division

FE/SUPPORT/[REDACTED] kmr (22 Sept 61)

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